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TO RUEHC/SECSTATE WASHDC 8286
INFO RUEHAC/AMEMBASSY ASUNCION 5638
RUEHBO/AMEMBASSY BOGOTA 2905
RUEHBR/AMEMBASSY BRASILIA 6776
RUEHBU/AMEMBASSY BUENOS AIRES 3997
RUEHCV/AMEMBASSY CARACAS 1343
RUEHPE/AMEMBASSY LIMA 1248
RUEHME/AMEMBASSY MEXICO 1662
RUEHMN/AMEMBASSY MONTEVIDEO 3594
RUEHQT/AMEMBASSY QUITO 3978
RUEHSG/AMEMBASSY SANTIAGO 8499
RULSDMK/DEPT OF TRANSPORTATION WASHINGTON DC
RUEAYVF/FAA MIAMI ARTCC MIAMI FL
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC

UNCLAS LA PAZ 000567

SIPDIS

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STATE FOR EB/TRA JHORWITZ AND EB/TRA/OTP BMATTINGLEY
STATE ALSO FOR WHA/AND LPETRONI
STATE PASS TO FAA MIAMI FOR LHART
STATE PASS TO DOT FOR CCOLDREN
COMMERCE FOR JANGLIN

E.O. 12958: N/A

TAGS: FAIR ECON PGOV BL
SUBJECT: BOLIVIAN NATIONAL AIRLINE FIGHTS FOR SURVIVAL

REF: LA PAZ 351

¶11. (U) Summary: Since the end of an early February pilots' strike (reftel), Lloyd Aero Boliviano has encountered a string of difficulties. Two U.S.-based firms, Aviation Capital Group and Pegasus Aviation, have repossessed or are in the process of repossessing leased aircraft, and the GOB has made it clear it will not provide financial assistance, instead authorizing a comprehensive audit to determine the extent of Lloyd's financial problems. While ticket sales continue to fall, Lloyd limps along, with employees and outside observers uncertain about its future but expecting the worst. End summary.

¶12. (SBU) Since the GOB intervened February 9 to end an eight-day pilots' strike (reftel), Lloyd Aero Boliviano, Bolivia's flag carrier, has encountered a string of difficulties. On February 24, the company returned one of two leased Boeing 727-200 jets to U.S.-based Aviation Capital Group, whose executive vice president told Econoff that Lloyd was significantly behind in its lease payments. The two firms agreed to a revised payment scheme a week before the pilots' strike, but the flight disruptions and subsequent loss of revenue made it impossible for Lloyd to fulfill its obligations. The loss of the aircraft reduced Lloyd's fleet of operating planes to five and placed new limits on its ability to provide service to Brazil, Argentina, and Mexico. Aviation Capital Group executives said they would repossess the firm's remaining aircraft as soon as Lloyd completes routine airbody maintenance work, which representatives expect the week of March 13.

¶13. (SBU) Another U.S.-based firm, Pegasus Aviation, is in the process of repossessing all four Boeing jets Lloyd leases from the company. The firm's deputy general counsel told Econoff that Lloyd returned two planes several months ago but owes significant amounts of money on both leases and is well behind on lease payments for the remaining aircraft. Pegasus Aviation's local counsel has filed aircraft deregistration

requests with the Bolivian Civil Aviation Authority and is awaiting a response; if the requests are approved, the company will move ahead with the repossession. According to company executives, Pegasus Aviation will also consider filing suit in U.S. courts to recover Lloyd's outstanding debts.

14. (U) Meanwhile, the GOB has made it clear it will not provide financial assistance, instead authorizing a comprehensive audit to determine the extent of Lloyd's financial problems. The company has not issued financial reports since 2003, so asset value and insurance and pension fund debts (estimated by some observers at almost \$30 million) are unknown. Lloyd's cash flow has been undercut by dwindling passenger loads and limited flight schedules, further undermining its accounts and forcing the GOB-appointed controller to try to reschedule debt payments and pursue special arrangements with the few suppliers still willing to work with the airline.

15. (SBU) Comment: Customers' confidence in Lloyd, long undermined by its reputation for unreliability, has fallen still further, with ticket sales down as much as 50 percent. Unable to fill its seats, Lloyd limps along, with employees and outside observers uncertain about its future but expecting the worst. The carrier's financial health and ability to maintain its aircraft and operate normally are in doubt, and many believe the airline will fail unless it receives a significant capital injection from the GOB or company shareholders, which is highly unlikely. If Lloyd does fail, American Airlines will be the sole carrier serving Miami, leaving travelers and exporters to compete for seats and cargo space. With angry creditors, a detached government, and a skeptical public, Lloyd's future is shaky

at best. End comment.

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